Technical Trading Patterns

Range Break Trading

Range break trading is a trading strategy used by traders to identify and capitalize on price movements that break out of a predefined trading range within a specific timeframe. Intraday, we use range break trading as a way to capitalize on periods of balance in the price action for "In Play" stocks by trading the change in the price action that creates excessive moves out of that balance. The concept hinges on the idea that financial instruments tend to move within certain price ranges or channels during a trading session, as they "reset" and significant moves or trends can start when prices break out of these ranges.

Start by appropriately identifying a range:

Establish Highs and Lows

The first step is to identify the highest and lowest price points of an asset during a specific period, which will serve as the range's boundaries. For intraday trading, this period could be the previous trading day, the first few hours of the current trading day, or any period of price action bound by the highs and the lows of the range which create Horizontal Support and Resistance Levels.

Horizontal Support and Resistance Levels

Once the high and low points are established, horizontal lines can be drawn on the price chart to represent these levels, which act as the range's support (low) and resistance (high) levels - These levels become increasingly important based on the number of "tests" or "touches" of the horizontal support and resistance levels AND the response of price to those levels

Early in the range being established, we look for fast moves away from that level
During the middle of the range we look for slower moves away from those levels
Late in the range we look for fast moves to the levels and then methodical moves away from those levels.

Timeframes For Range Break Trading

shorter timeframes like 15-minute, 30-minute, or 1-hour charts are often used to identify trading ranges, as they provide a granular view of price movements within the trading day. Ranges can form quickly in periods of elevated volatility - as little as 10 minutes, but generally, we look for 20 minutes to 1 hour and 15 minutes for a good range to be established.

Volume Analysis: Analyzing trading volume can provide additional insights. For instance, a decrease in volume during the formation of the range followed by a significant increase in volume at the breakout point can validate the range break.

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Once a range has been identified, traders look for signals that the price is breaking out of this range, which could indicate the start of a new trend. These breakouts can occur in either direction - upwards (bullish) or downwards (bearish).

Bullish Breakout: Occurs when the price moves above the range's resistance level. Traders might enter a long position, anticipating further upward movement.

Bearish Breakout: Occurs when the price drops below the range's support level. Traders might take a short position, expecting the price to continue falling.

Examples of Trades that can be taken from a range break:

Range break Trade:

Stop is placed .02 below the support level for a bullish range break to the upside or .02 above the resistance level for a bearish range break to the downside

Entry is on the initial break of the range, we should observe a clear change in the price action as the range breaks and following the range break showing new momentum in the stock.

**Price target:** We look for a standard 2:1 reward to risk on range break trades
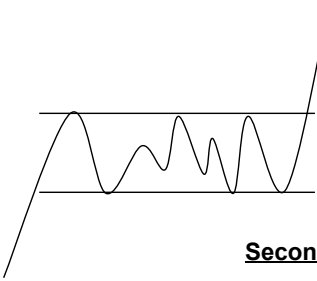
Second Chance Trades (break and retest trades):

Following the initial break of range, we look for a "retracement" to the breakout point of the range and we look for a "TURN" candle.

Stop is placed .2 below the low of the "Turn" candle

Entry is on the first candle that closes in the direction of the range break following the "retest" of the breakout level.

Price Targets: we take initial profit (½) our position at the prior high and trail stop with position
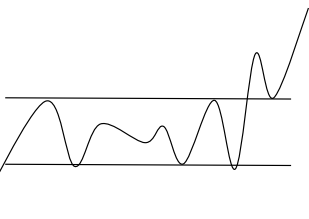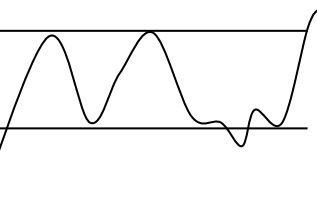
Failed Break out of Range

Price attempts to break the range, and even breaks the range, but the price action does not support the movement. Price trades back into the prior range creating a Failed Break Out. .

Stop is placed .02 below the low of the failed break down.

Entry is on the first bar that closes away from range that was broken.

Price Target is the other end of the range.